Guinness Sustainable Global Equity Fund

INVESTMENT COMMENTARY – March 2021

About the Fund

The Fund is a global growth fund designed to provide exposure to high quality growth companies, with sustainable products and practices. The Fund holds a concentrated portfolio of midcap companies in any industry and in any region.

Fund size	£7.1m
Fund launch date	15.12.2020
Managers	Sagar Thanki Joseph Stephens

Performance **31.03.21**

Since the fund was launched on 15.12.2020 there is insufficient data to provide a useful indication of past performance to investors

Strategy	Guinness Sustainable Global Equity
Index	MSCI World Index
Sector	IA Global

Summary performance

Going into the new year there was optimism as two of 2020's main uncertainties became a little clearer. Three COVID-19 vaccines showed high efficacy rates and began to roll out across nations, while Joe Biden and the Democrats were able to win both chambers of Congress after taking two key Senate seats in Georgia. Both occurrences fuelled enthusiasm for a recovery in the economy in 2021 backed by further fiscal stimulus and largely vaccinated nations. However, while equity markets generally rose across Q1, it was not smooth sailing. Greater inflation and interest rate expectations led to investors selling US treasuries, sending yields higher and negatively affecting the more interest-sensitive sectors including IT. Value came back into vogue as Energy and Banks led markets, and vaccine rollouts continued at pace but with uncertainties around possible side-effects and further regional lockdowns. Overall, however, markets were buoyed by increasingly optimistic growth expectations by both companies and broader bodies such as the IMF; governments continued their unprecedented fiscal policies including newly elected President Biden's proposed $2tn package; and central banks continued to hold rates low while continuing with record monetary policies.

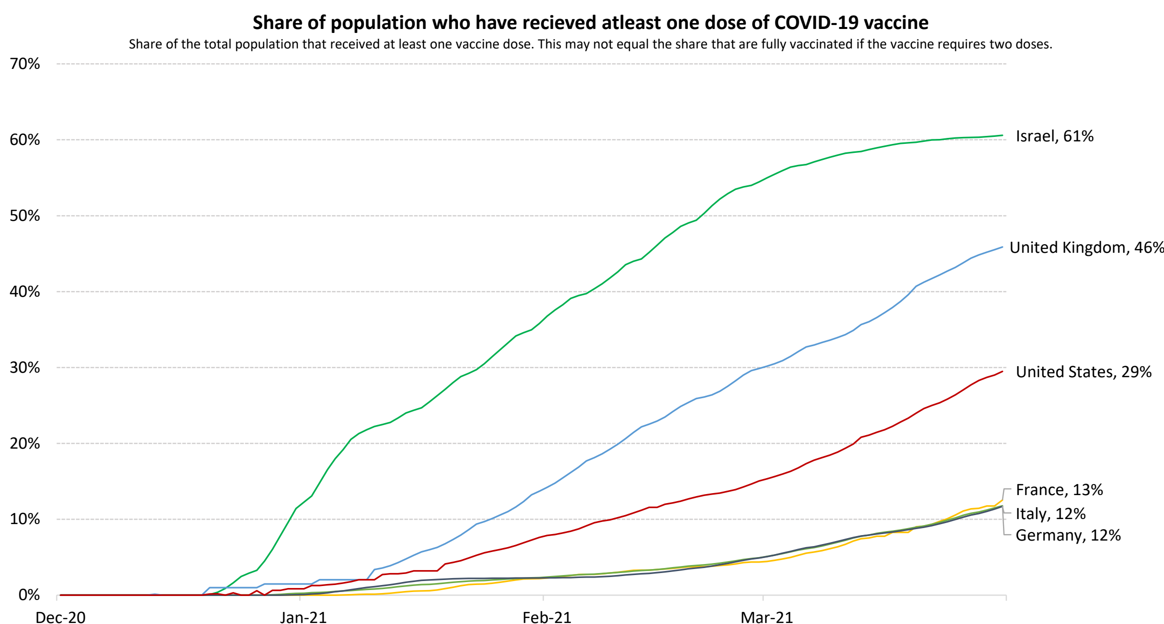
Overall, during the quarter, the Fund's performance can be attributed to:

- Not owning any Energy or Bank stocks, which was a drag on performance from an asset allocation perspective. A value-led rally on rising inflation expectations led to weaker returns for growth stocks.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

- However, the rotation into more cyclical sectors, including Industrials, was a positive for performance given it is the Fund's largest overweight sector relative to the MSCI World Index.
- Weaker returns from the Fund's healthcare holdings – primarily MedTech businesses. These had previously benefitted from accelerated Covid-led demand, but now dealt with the prospect of a slowdown in demand in 2H 2021.
- Conversely, although the IT sector was a laggard over the quarter, the semiconductor industry vastly outperformed its hardware and software counterparts, up 11.5% (MSCI World Semiconductor Index, USD) over the quarter. With generally bullish management commentary, industry supply constraints, and continued growth in capital expenditure from leading foundries, the Fund's semiconductor exposure was a positive contributor to performance through the semiconductor equipment manufacturer, KLA Corp (28.0%), and materials supplier and transport management business, Entegris (16.4.%).
- Over the quarter, large cap lagged their mid and small-cap equivalents which was also a positive for Fund performance.

Quarter in Review



Source: Our World in Data, as of 31st March 2021

US continues its unprecedented fiscal stimulus….

One of the cornerstones of President Biden's presidential campaigns was a huge stimulus package primarily aimed at infrastructure and renewable energy to reinvigorate the US economy post COVID-19. During the quarter, the plan was unveiled which would cost more than $2tn and which would in-part be funded by plans to increase corporate tax from 21% to 28% – a partial reversal of ex-President Trump's tax reduction from 35% to 21% – whilst also increasing the GILTI tax (intangible low-tax income) which would primarily affect low capital-intensive, high intangible sectors such as IT. This came no-sooner after President Biden had formally passed a $1.9tn stimulus package and continues

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

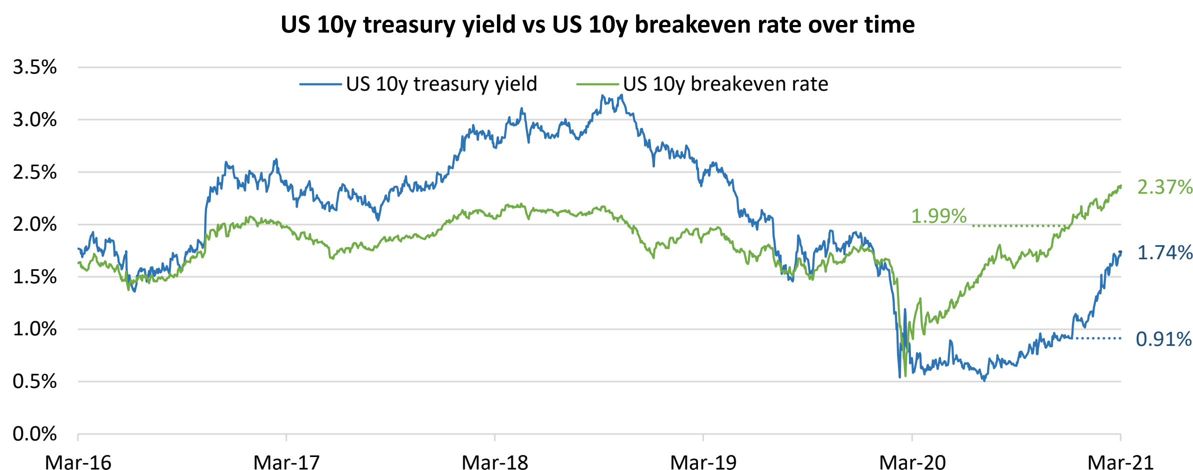
to add to the government's unprecedented fiscal policy in the wake of the pandemic. Although the Fund has high exposure to these asset-light areas, any tax proposal would need to pass through the Senate where the Democrats hold a slim majority, and as such may be subsequently watered-down. Further, the fiscal packages, of which the tax increases would help finance, may provide growth opportunities for Fund holdings as the US directs money into sustainable energy, healthcare, and broader business resiliency.

…while the US Fed continues to provide monetary support

Elsewhere in the US, the Fed agreed to keep interest rates at ultralow levels whilst maintaining it will not start scaling back its asset purchases until it sees "substantial further progress". Further, minutes from the Fed meeting show an increasing optimism for a brighter economy in the near-term as economic indicators become more favourable and as the vaccine program continues. In all, continued monetary and fiscal support left the US as the best performing region over the quarter. From the Fund's perspective, the exposure to the US was the largest regional contributor to relative performance primarily through stock selection.

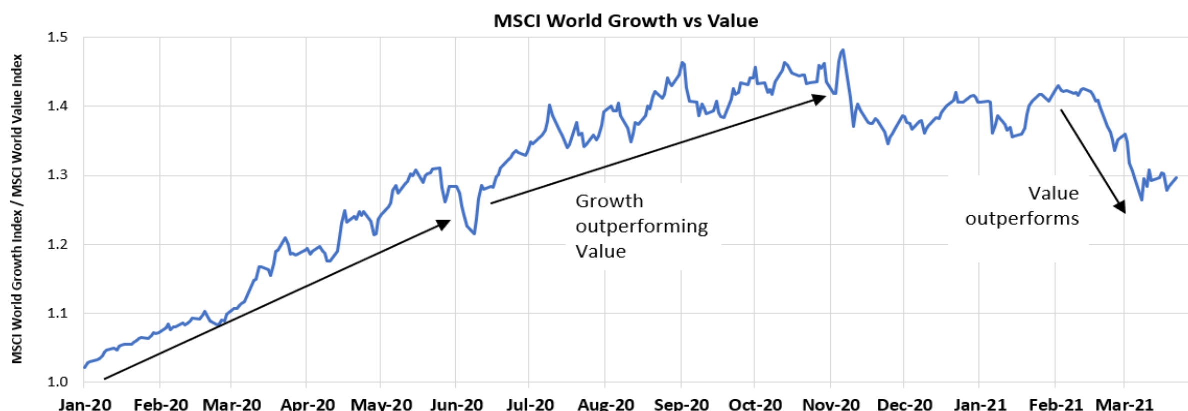
But does inflation loom on the horizon?

With vaccine rollouts underway, COVID-19 case numbers falling in many regions, and further government stimulus packages in the pipeline, investors' attention is turning to the possibility of higher inflation (as implied by the 10y breakeven rate below) and thus higher interest rates in the nearer term.



US 10y treasury vs US 10y breakeven rate. Source: Bloomberg, as of 31st March 2021

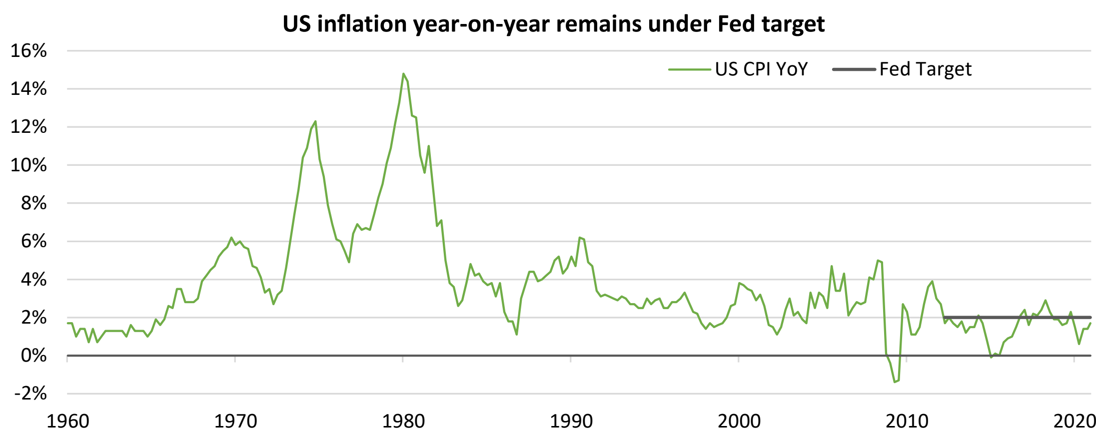
This particularly dragged on the outlook for growth stocks which are expected to see earnings growth further out into the future and so are more vulnerable to higher discount rates. In contrast, value stocks performed relatively better as the "stay-at-home" trade gave way to the "re-opening" trade.



MSCI World Growth vs Value, in GBP. Source: Bloomberg, as of 31st March 2021

Not surprisingly, the sectors that are most sensitive to the economic cycle – such as Energy, Financials and Industrials – performed best over the quarter. In the Fund, we have no exposure to Energy or Banks which was a drag on performance. Companies within these sectors tend not to show up in our investible universe due to our focus on companies which have high returns on capital and strong balance sheets. The stringent quality criteria excludes most companies within the commodity-based and regulated sectors where a business' profitability is often influenced by exogenous factors. Industrials – where the Fund is overweight verses the benchmark – contributed positively to performance, alongside stock selection across sectors whereby holdings KLA Corp (28.0% USD), Zebra Technologies (26.2% USD), and A.O. Smith (23.9% USD) has stellar returns.

While the rotation to value was a drag on the Fund's performance over the quarter, the market's focus on higher inflation does not necessarily mean it will materialise. Inflation in the US has continued to trend below the Fed's 2% target and even quantitative easing post the financial crash was unable to stimulate a substantial increase. Owing to unprecedented monetary and fiscal packages, in response to the COVID-19 pandemic, investors are now pricing in higher inflation for the next 5 years.

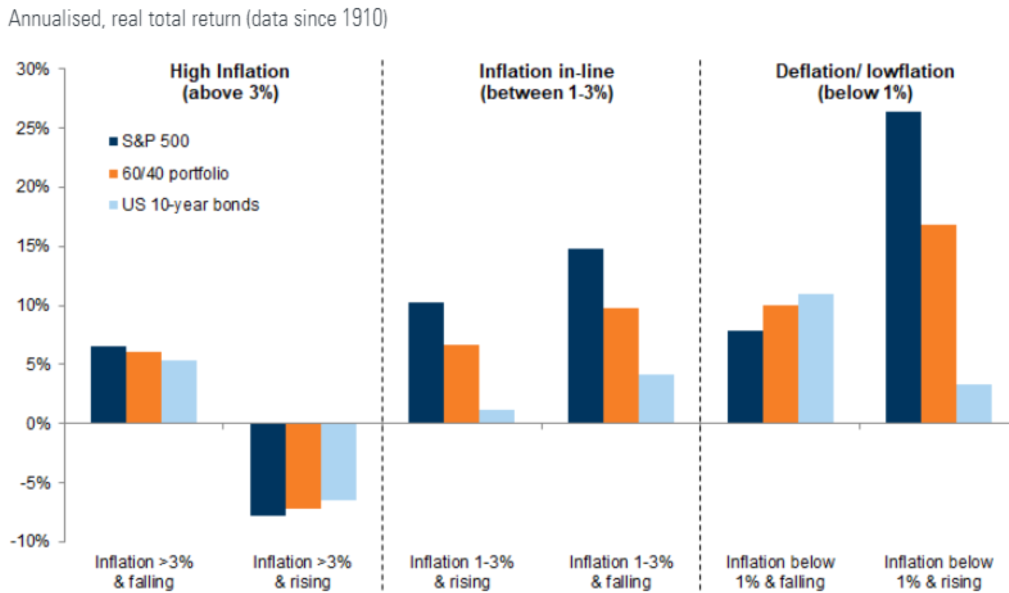


US CPI over time. Source: Bloomberg, as of 31st March 2021

However, rising inflation expectations and interest rates, from moderate base levels, can be taken as a sign of positivity with economies returning to growth. What is more, history shows us there is reason

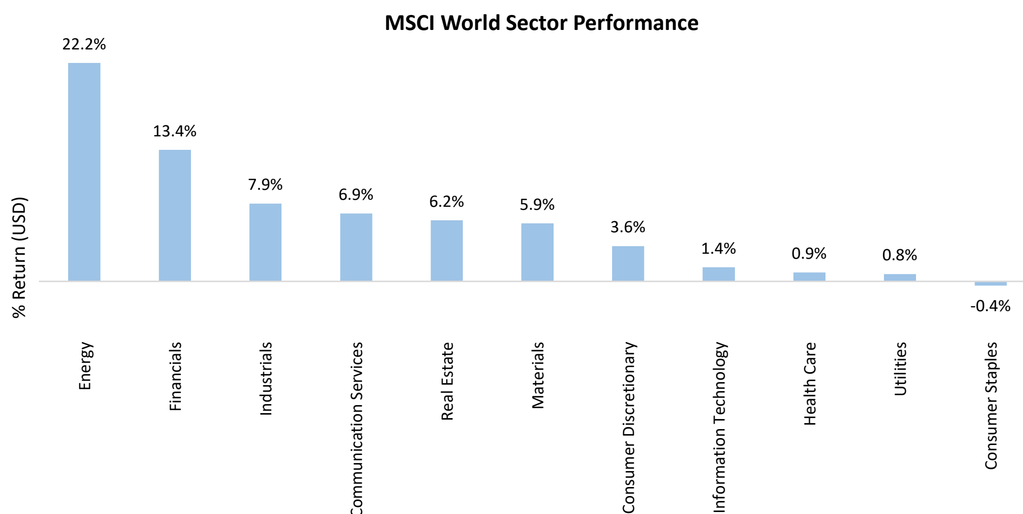
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

to be optimistic from an equity perspective, with increases in inflation expectations from a moderate base, correlated with strong equity markets.



Basket performances based on economic environment. Source: Robert Shiller, Goldman Sachs Research

Semiconductor stocks continue to benefit from shift to new normal:



MSCI World sector performance (USD). Source: Bloomberg, as of 31st March 2021

While IT stocks lagged over the quarter as yields and inflation expectations rose, it was not a uniform underperformance across IT industries. Semiconductors ended the quarter as the 3rd best performing industry (up 11.5% USD behind Energy and Banks) with continued bullish commentary from management on accelerations in technologies driving a new norm for economies, while near-term supply constraints only emphasised the increasing need for these technologies. Indeed, there is

currently a short-term supply issue related to COVID-19, particularly within the auto industry, as a consequence of a number of factors:

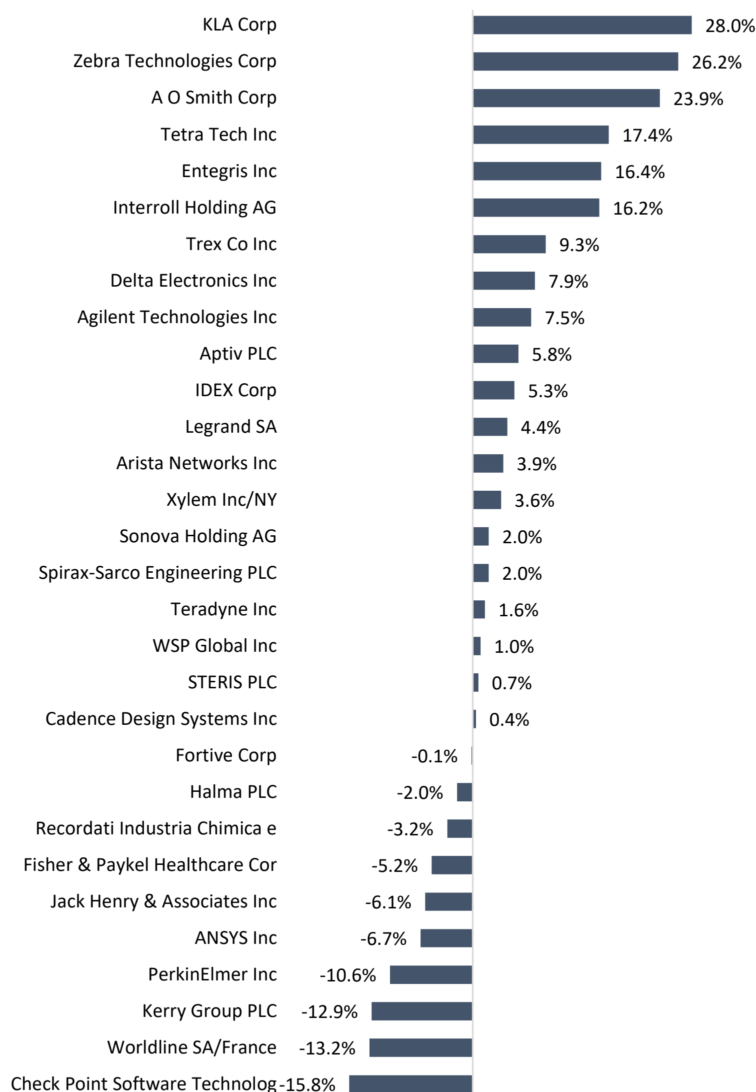
1. The automotive industry cut their orders for semiconductors as they saw demand for new cars fall in Q2 2020. Now their suppliers have allocated capacity to other industries.
2. Work from home has led to the highest growth rate for PCs, monitors, and TVs in a decade.
3. Demand for 5G smartphones has doubled.
4. Increased demand for cloud applications means more demand from datacentres.
5. Cryptocurrency mining has rebounded as cryptocurrencies have rallied.
6. COVID-19 caused supply chain disruption.

Looking closer at why semiconductor fabs (fabrication plants), such as TSMC, are unwilling or unable to allocate capacity back to the automotive industry, we find that the automotive industry does not have substantial bargaining power. For example, Apple's iPhone silicon needs are more than the entire automotive industry, and the iPhone is only 25% of the smartphone market. So any individual auto manufacturer does not have much bargaining power. Semiconductor fabs also want to be running at full capacity and as such cannot redistribute capacity based on short-term supply imbalances in favour of more secure long-term contracts.

Further still, there is a growing realisation in the US and Europe of how strategically important it is to have leading edge semiconductor manufacturing capacity closer to home. The world is extremely reliant on TSMC's Taiwan-based plants and this is worrying certain policymakers. However, the cost and expertise to build new leading edge fabs is a huge barrier with the estimated cost to construct a leading-edge 5nm fab module almost double the cost for 7nm. Over the quarter this point was emphasised as Intel announced a return to the custom foundry business with $20bn in capital expenditure across the year to build out 2 new fabs. Further still, TSMC, the leading foundry by some stretch, announced new plans to spend $100bn over the next 3 years to expand capacity – more than double what it spent in the previous 3 years. Over the quarter, Fund exposure to semiconductor businesses was the largest contributor to Fund performance with the semiconductor equipment manufacturer, KLA Corp (28.0%), and materials supplier and transport management business, Entegris (26.3%), set to benefit from increased spending by foundry customers.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Stock Selection



Performances of Fund constituents (total return in USD). Source: Bloomberg, as of 31st March 2021

KLA Corp (28.0%):

KLA Corp was the best performer in the quarter as foundries (and customers), TSMC and Intel, announced record spending plans for the coming years to expand capacity and continue driving leading-edge fabrication. Intel announced a return to the custom foundry business with $20bn in capital expenditure across the year to build out 2 new fabs. Further still, TSMC, the leading foundry by some stretch, announced new plans to spend $100bn over the next 3 years to expand capacity – more than double what it spent in the previous 3 years. We continue to see good value from the semiconductor space with promising long-term growth; the return-on-capital of these businesses has been increasing over prior years, and valuations, particularly amongst the equipment manufacturers, remain attractive, especially when compared to other IT industries.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Zebra Technologies (26.2%):

Zebra Technologies is the supplier of radio-frequency identification tags and readers. These have multiple applications from use in retail stores, to tracking the flow of goods through manufacturing, to tracking NFL players live on a pitch. Additionally, the business is increasing its development of adjacent software that creates actionable insights for businesses, such as through its recent acquisition of Reflexis Systems for $575m. Over the quarter, Zebra Technologies reported strong results that beat analyst expectations on revenue, earnings, and guidance. We continue to view Zebra as a key business in enabling businesses to automate workflow and create more actionable insights that ultimately creates more resilient business models.

Interroll (16.2%):

Interroll, the producer of material handling systems including conveyors, sorters, and drives, announced pre-results in January ahead of expectations that sent the share price up ~13% (USD) on the day. The business is an enabler of more automated workflow, benefitting from market trends including the global ecommerce and retail boom, more decentralised distribution centres, more stringent hygiene regulations in the food industry (leading to less manual solutions), and broader increases in productivity. Indeed, the COVID-19 pandemic has put a spotlight on the resiliency of many companies' operations, and Interroll is set to aid in the subsequent automation. This was highlighted in the company's earnings call, in that they had received two major new orders, one from a leading US ecommerce platform, and one from a well-known supermarket chain which requires more than 9km of Interroll conveyors and solutions.

Kerry Group (-12.9%):

Kerry Group, which develops and manufactures taste and nutrition solutions for food and beverage companies, and also has a smaller consumer products business which includes brands such as Richmond sausages, was one of Fund's underperformers over the quarter. Alongside broader weakness in the Consumer Staples sector (the worst-performing sector as investors rotated into more cyclical sectors), the business faced a short-seller report primarily challenging their financial disclosure over recent acquisitions. While there seems to be little by way of evidence, management acknowledged the report in their recent earnings call, highlighting inaccuracies in the short-seller report and reiterating their stance of not disclosing M&A details on a standalone basis as they tend to be small in nature and as agreements may involve investments or reallocations of resources from the acquired business. While Kerry Group has been a laggard over the short-term, we view the opportunity as only getting more attractive with weakness in near-term share price. Management announced plans for a strategic review of Kerry Group's dairy business, and there are reports of the possible disposal of their consumer goods business (alongside other low-margin, low growth business lines), which would free up cash for more strategic, value-accretive investments. Further, Kerry Group operates in an attractive market (taste & nutrition solutions) as trends in consumer preference create on-going opportunities for the company; these include clean-label products, plant-based products, and broader nutritional improvements,

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Worldline (-13.2%):

Worldline, the payment processing business, was the Fund's 2nd weakest performer over the quarter as lockdowns continued to weigh on consumer spending. The business should be a strong beneficiary of the re-opening of economies, however, a slow easing of restrictions weighs on the volume of payments they can process, alongside weak international travel which yields stronger margins for the business. Having said this, we remain confident economies will eventually relax restrictions releasing pent up demand as consumers have been isolated away, saving more of their disposable income than historic averages.

Checkpoint (-15.8%):

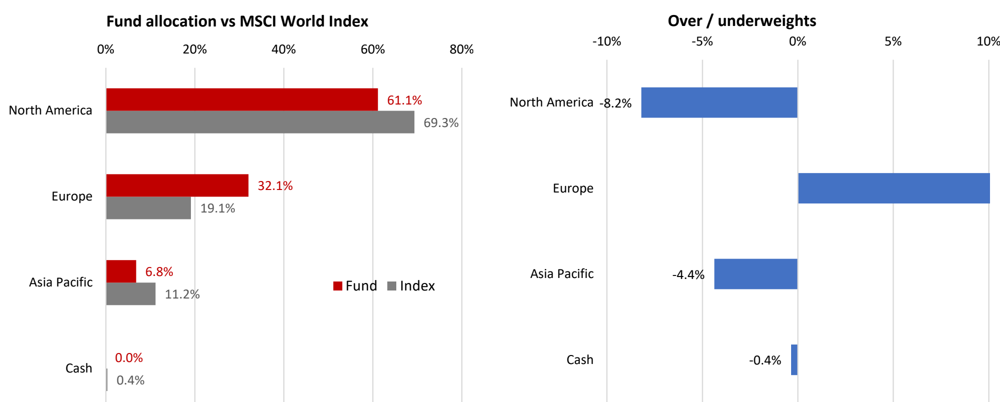
The cyber security software business was the worst-performing stock over the quarter, primarily as a result of a 10% drop in price after the company reported its full 2020 results. While the business stated solid results with revenue and earnings ahead of analyst expectations, guidance was below expectations which was particularly compounded by investor expectations that the cyber security breach that occurred at SolarWinds earlier in the quarter, would provide a tailwind for future cyber security spending. While the business attributes less revenue to the faster-growing cloud segment relative to its more expensive peers, the company is still set to benefit from the general trend towards increased cyber security spend. We also like that the company generates significant cash flow, owing to its asset-light business model.

Changes to the Portfolio

We made no changes to the portfolio in the quarter.

Portfolio Positioning

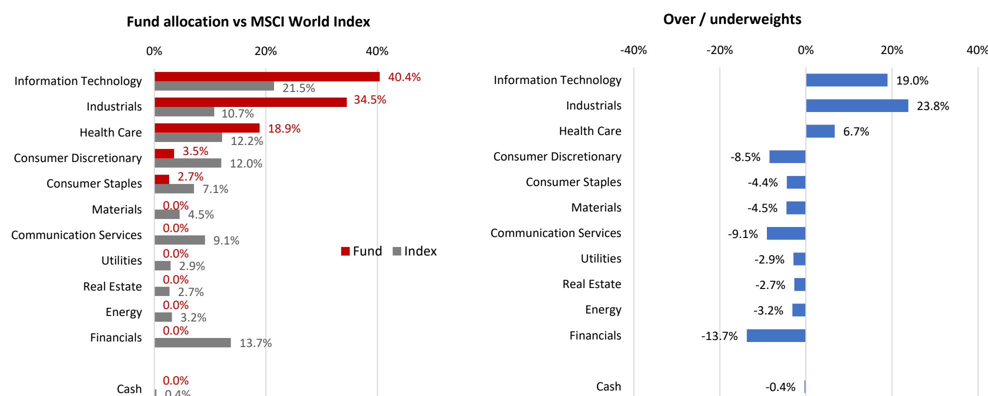
The Fund's regional allocation is not dissimilar to that of the MSCI World Index. The Fund currently has an 8.2% underweight to North America, whilst exhibiting a 10% overweight to Europe.



Regional breakdown of the Fund versus MSCI World Index.
Source: Guinness Asset Management, Bloomberg. Data as of 31st March 2021

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

On a sector level, the Fund continues to have a large overweight to IT (25.5%), while the Fund's 0% exposure to Materials, Communications, Utilities, Real Estate, Energy, and Financials leaves these areas underweight relative to the benchmark.



Sector breakdown of the Fund versus MSCI World Index.
Source: Guinness Asset Management, Bloomberg. Data as of 31st March 2021

Key Fund Metrics

Sustainability: We focus on companies whose products and services are enabling the transition to a more sustainable economy; these are likely to experience persistent top line growth as nations and consumers continue to change preferences. Ultimately, we believe that sustainable companies are likely to be strategically placed for long-term growth with more forward-thinking management teams able to better capitalise on future opportunities.

Quality: We focus on companies with a history of persistently high and improving return on capital. Our analysis shows that these businesses are highly likely to maintain their profitability in the future. We also seek companies with strong balance sheets and avoid those which have taken on significant leverage in order to fuel their growth. This filter is perhaps more important when looking at smaller companies which may not have the ability to refinance at low rates.

Growth and valuation: We focus on growth through a midcap lens. Over the long-term midcaps have grown their revenues and earnings faster than their large and small cap counterparts. Further, we often find that there is significant crowding in large-cap names when searching for sustainability. By focusing on midcap companies, not only do we differentiate ourselves, but we also tend to find more pure-play sustainable businesses.

Conviction: Although we run a concentrated portfolio of 30 stocks, we equally weight each position. This caps stock specific risk to approximately 3.3% thereby limiting the impact to the overall portfolio of a single company performing particularly poorly. The portfolio's active share versus the MSCI World Index is currently 99%, giving investors a truly different exposure.

The table below illustrates the four key tenets of our approach in the portfolio today.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

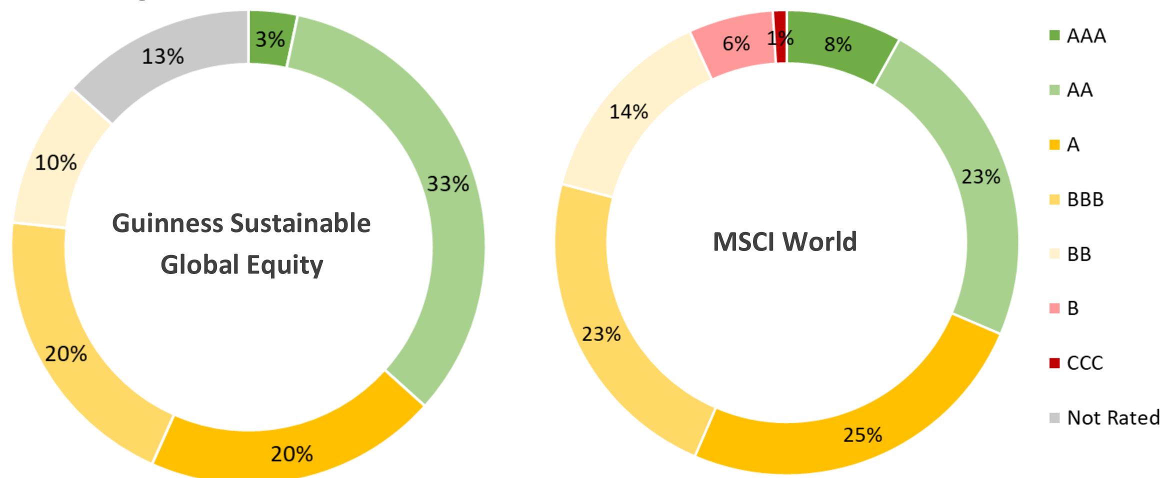
		Fund	MSCI World Index
Sustainability	% MSCI ESG Leaders	37%	31%
	% MSCI ESG Laggards	0%	7%
	CO2 emissions (tons)/$m invested	6.2	96.3
Quality	Return-on-Capital	14%	4%
	EBIT Margin	20%	9%
	Weighted average net debt / equity	12%	50%
Growth (& valuation)	Trailing 5-year sales growth (annualised)	9%	2%
	Estimated earnings growth (2022 vs 2021)	9%	14%
	PE (2021e)	30.5	21.2
Conviction	Number of stocks	30	1630
	Active share	99%	-

Outlook

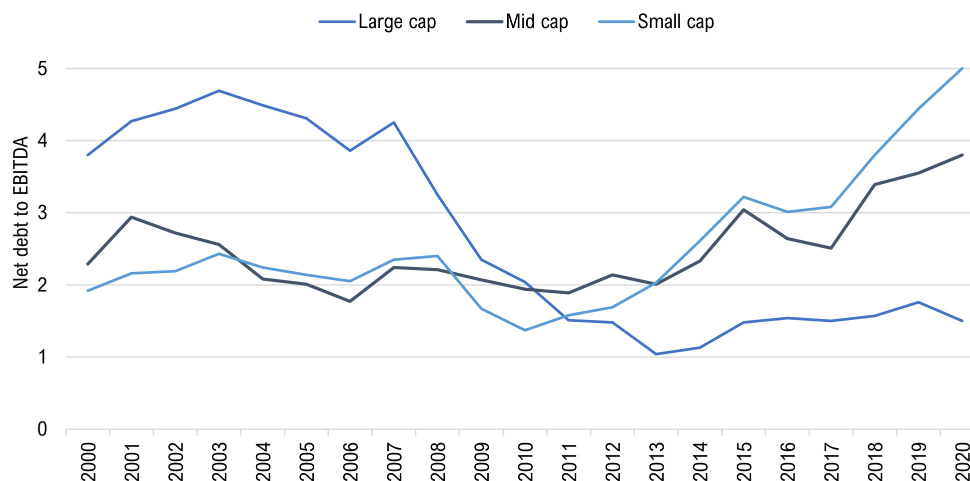
While the Fund has lagged the benchmark over the first quarter of the year, this has been a function of not owning any Banks or Energy stocks which do not meet our high-quality hurdle, while the rotation into value-oriented stocks and away from growth over the quarter was always going to be a hinderance for the Fund. However, we would make the argument that the Fund is well positioned for the recovery in economies with high exposure to companies enabling or benefitting from the transition to a more sustainable economy which has been a central theme of many governments' fiscal stimulus packages, not least US President Biden's recent $2tn proposal. From a sustainability perspective, based on simple quantitative metrics, the Fund has a higher proportion of holdings in ESG leaders (ratings AAA and AA, as deemed by MSCI) vs the benchmark, has no exposure to ESG laggards (ratings B and CCC – companies demonstrating inadequate management of ESG risks and are vulnerable to disruptions arising from ESG events), whilst a $1m investment in the portfolio would have an impact of 6.2 tons of CO2 emissions (tCO2e) emitted each year vs 96.3 tCO2e for the benchmark – a saving of 90.1 tCO2e per year. Ultimately, we think this Fund enables investors to benefit from long-term growth themes whilst investing in companies 'doing good'.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

MSCI ESG Ratings



What is more, the Fund remains attractive on a fundamental basis too, exhibiting more than double the return-on-capital and operating margins of the benchmark whilst taking on less debt. We believe this last point to be particularly important in the midcap space and given the recent access to ultra-cheap borrowing which has enabled smaller businesses to take on considerable leverage vs their large cap peers, which will most likely need to be refinanced in the future at presumably higher rates – this is where smaller business may fall into trouble with high debt burdens and less access to refinancing facilities.



US Indices. ***Source: Bloomberg, as of 31st March 2021***

In contrast, the Fund has a net debt to EBITDA of 0.6x, giving us good confidence that the underlying businesses can continue to grow without relying on external capital.

In summary, we believe, while there may continue to be bumps on the road, there is good reason to be optimistic as we continue into 2021 – a build-up of cash for both the average consumer and corporation, and government continuing to push through large stimulus packages should translate into robust near-term GDP growth. In particular, we continue to see an acceleration in sustainable transformations across industries post-COVID that will have a lasting effect on how consumers and

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

businesses operate. As such, we believe this Fund and its holdings are well positioned to benefit from long-term demand drivers, while the focus on quality businesses reduces some of the risk inherent in growth-for-the-sake-of-growth stocks, as we ensure our businesses are putting capital to effective use.

We thank you for your continued support.

Portfolio Managers

Joseph Stephens
Sagar Thanki

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

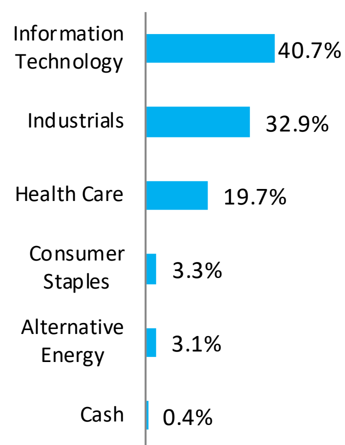
PORTFOLIO

31/03/2021

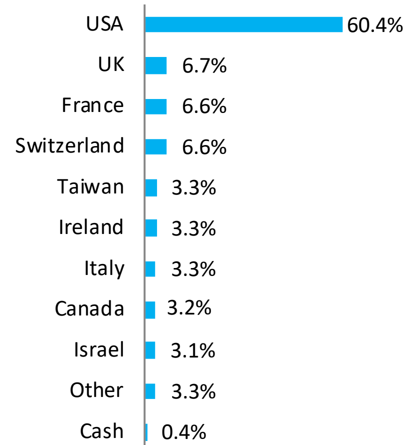
Fund top 10 holdings

Holding	%
KLA-Tencor	3.7%
Cadence Design Systems I	3.5%
Entegris Inc	3.5%
Teradyne Inc	3.4%
Arista Networks Inc	3.4%
Zebra Technologies Corp	3.4%
Legrand SA	3.4%
IDEX Corp	3.4%
Halma PLC	3.4%
ANSYS Inc	3.4%
% of Fund in top 10	34.5%
Total number of stocks	30

Sector analysis



Geographic allocation



Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Sustainable Equity Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk
The Guinness Global Sustainable Equity Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website.

Documentation
The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Residency
In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.
NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation
The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland
This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore
The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls will be recorded and monitored.